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C O N F I D E N T I A L BUENOS AIRES 001008

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TREASURY FOR CLAY LOWERY, NANCY LEE, AJEWEL, WBLOCK, LTRAN  
NSC FOR JOSE CARDENAS, ROD HUNTER  
PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE  
ROBITAILLE  
PASS EXIM BANK FOR MICHELE WILKINS  
PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI  
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: DECL: 05/21/2017  
TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)  
SUBJECT: FED GOVERNOR KROSZNER DISCUSSES GOA ECONOMIC  
POLICIES WITH ECONOMY MINISTER

REF: BUENOS AIRES 1004

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

#### Summary

1. (C) During a March 16 meeting with Federal Reserve Governor Kroszner and Ambassador Wayne, GoA Economy Minister Miceli outlined the GoA's incipient effort to implement medium/long term economic planning, now that the financial crisis and default are five years in the past. She described the GoA's new initiative to develop a national production strategy, modeled on the examples of Chile, Spain, Ireland, and South Korea. She, Planning Minister De Vido, and other senior Argentine officials are looking forward to participating in the June 11-12 competitiveness forum in Atlanta, and will go prepared to discuss and explain the GoA's new strategy. End Summary.

#### Kroszner Visit to Buenos Aires

2. (U) Federal Reserve Governor Randall Kroszner paid a courtesy call on Economy Minister Felisa Miceli May 16, to close out his May 15-16 visit to Buenos Aires (see septels for private meetings with Central Bank President and private sector roundtables). Kroszner gave Miceli a brief overview of the two speeches he gave while in Argentina, which focused on globalization's impact on international capital flows. However, the meeting centered on the GoA's recent publication of its draft medium/long-term economic plan, titled, "Strategic Guidelines for Development of Production in Argentina."

Miceli Unveils National Production Strategy

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¶3. (C) Following four years of nearly 9% annual real growth, Argentina was in much better shape, according to Miceli, with twin surpluses (fiscal and trade) helping the country to rebuild its confidence after the long recovery process following the 2002 "pesification and default." While she predicted another high growth year for 2007, with 7.5 - 8% real growth, she argued that the economy still faced serious challenges and needed more time to complete the post-crisis transition. However, with the publication of the first draft of a new national production strategy, the GoA was, for the first time since 1975, thinking about the medium to long-term horizon.

¶4. (C) Miceli said the production strategy plan used the Chile, Spain, Ireland, and South Korea development experiences as models, particularly those of Chile and Ireland. She noted that the Chilean government, following the 1982 economic crisis, had implemented a long-term plan to build credibility in the economy and government policy-making over 20 years, under different governments. She said Chile had focused on financial fundamentals and opening markets, independent of Mercosur and other South American trade initiatives.

¶5. (C) The new national plan shows that Argentina intends to emulate Chile's and others' responsible policy decisions and longer term focus on a small set of basic principles, Miceli argued. She noted that the GoA had already created an investment promotion agency, was placing added emphasis on increasing productivity (through education and training in science and technology), and considered its conservative fiscal policy -- with a projected 3.5% consolidated primary

surplus expected for 2007 -- as the foundation for maintaining growth and manageable inflation levels. The idea was to solicit input on the draft plan over the next 90 days from academics, the private sector, and even foreign Embassies, and agree on a common path forward for economic policy. However, she acknowledged that election year pressures would limit how creative the GoA could be until after the October elections.

¶6. (C) Governor Kroszner encouraged comparisons with successful economic models. He especially considered Ireland a great example of a country that had made the right decisions regarding opening the economy, building trust in government institutions and policies, and improving the environment for investment. He suggested this could be a good fit for Argentina, in particular, since Ireland also had a large neighbor, Great Britain, which it both competes with and depends on (equivalent to Brazil, for Argentina). He offered to introduce the Minister to Ireland's Charlie McCreedy, who was one of the main architects of the Irish miracle when he served as Ireland's Finance Minister.

#### Miceli Participation in Commerce Competitiveness Forum

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¶7. (SBU) Miceli confirmed that she has accepted the invitation to participate in the June 11-12 America's Competitiveness Forum in Atlanta, hosted by U.S. Commerce Secretary Gutierrez. Planning Minister Julio De Vido also

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plans to attend, and will lead the Argentine delegation of 5-6 senior GoA and Provincial government officials.

#### Comment

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¶8. (C) Despite prodding from Governor Kroszner and Ambassador, Miceli did not give much detail on the draft national production strategy. This is not surprising, for, after reviewing the document (which has yet to be posted to the Ministry's website), Post finds it mostly devoid of substance at this point. The first half is a good description of the macro economy and GoA policies; remarkable in comparison to the technically weak reports that this government normally issues. However, the second half of the

report is unfocused and belies a preference for the "structural" economic model (i.e., government directed industrialization) favored by many in the Kirchner administration. This is consistent with Miceli's explanation that she hopes to build a consensus on a set of basic principles that Argentina could use to anchor a long-term strategy. It is also a good sign -- and a departure from the norm of the last three years -- that the government is reaching out for input on economic policy from non-government sources, and is likely an indication that some in the GoA recognize adjustment is needed post-election.

19. (C) We also see heavy Argentine participation in the Atlanta competitiveness forum as a positive signal of the GoA's interest in engaging with USG counterparts. We urge Washington principals who will attend the Atlanta conference to take advantage of Miceli and De Vido's presence to encourage the GoA to regularize debt arrears and relations with international capital markets and, more broadly, to modify Argentina's heterodox economic model in ways that will temper growing inflationary pressures and allow for a soft landing that will sustain reasonable growth levels (see reftel). End Comment.  
WAYNE